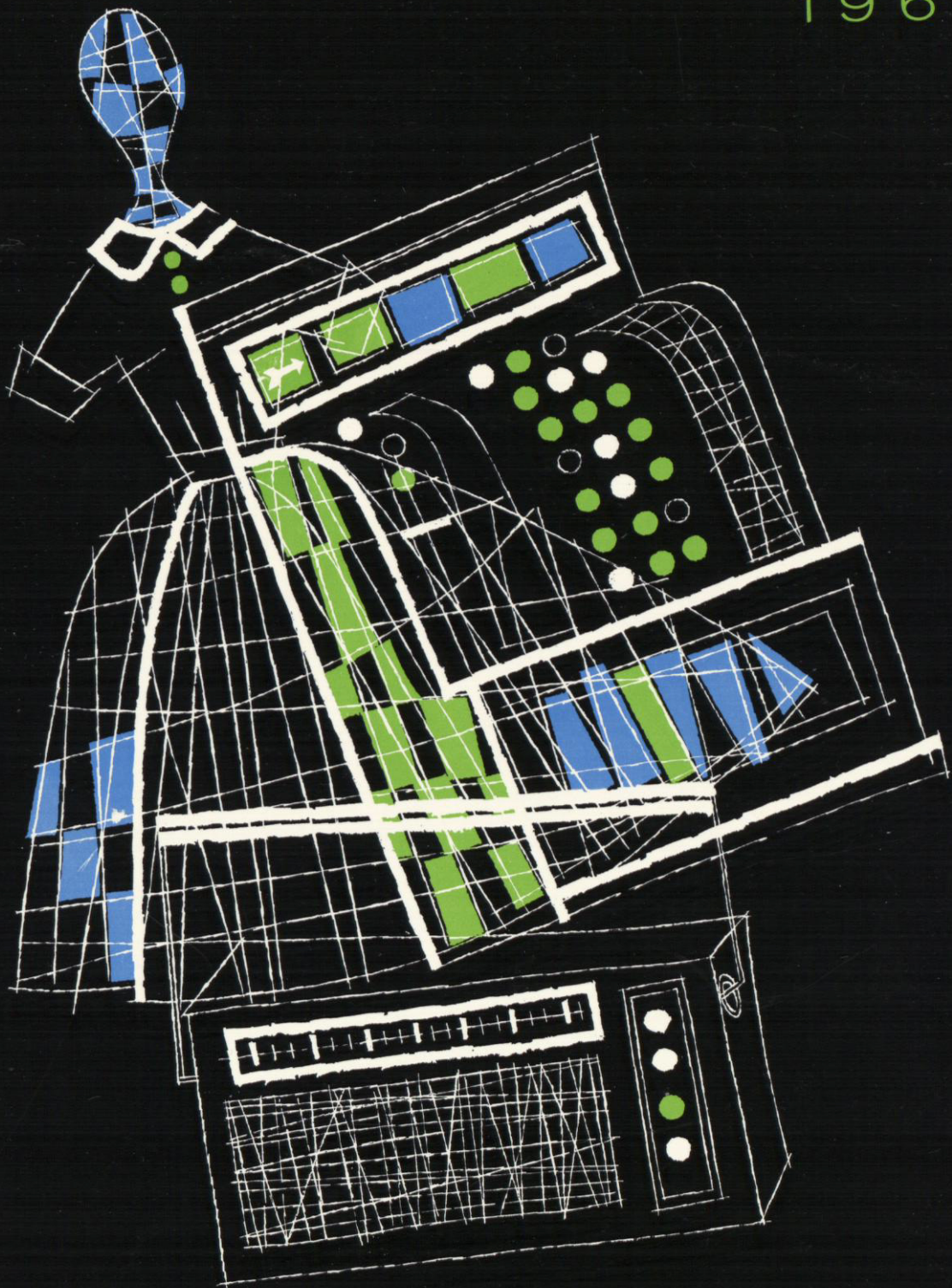


INTERSTATE DEPARTMENT STORES, INC.  
ANNUAL  
REPORT  
1965



Year Ended January 31, 1966



## DISCOUNT STORES

### WHITE FRONT STORES / CALIFORNIA

Anaheim	West Los Angeles	San Jose	Fresno
Canoga Park	Oakland	San Bernardino	So. Sacramento
Concord	Ontario	Sunnyvale	So. San Francisco
Covina	Pacoima	Torrance	San Diego
East Los Angeles	Sacramento	Van Nuys	La Mesa

### TOPPS STORES

#### CONNECTICUT

Berlin  
Fairfield  
Hartford—Windsor  
East Hartford  
Middletown  
West Haven

#### ILLINOIS

Chicago—Addison  
Chicago—Arlington Heights  
Chicago—LaGrange  
Chicago—Morton Grove  
Chicago Heights  
Elgin  
Joliet  
Waukegan

#### INDIANA

Gary\*  
Highland  
Indianapolis—38th Street  
Indianapolis—Speedway

#### KENTUCKY

Louisville—Hikes Point

#### MARYLAND

Baltimore

#### MASSACHUSETTS

Brockton\*\*  
Fall River (Kerr Mill  
Bargain Center)  
West Springfield

#### MICHIGAN

Detroit—Oak Park  
Detroit—Redford  
Detroit—Warren  
Detroit—Wayne\*  
Kalamazoo  
Lansing

#### NEW JERSEY

Totowa, Rt. 46

#### NEW YORK

Albany  
Buffalo—Cheektowaga  
Buffalo—Tonawanda  
Rochester

#### OHIO

Canton  
Cleveland—Maple Heights  
Cleveland—Mayfield Heights  
Cleveland—Parma Heights  
Toledo

#### WISCONSIN

Green Bay  
Madison

\* Opened March, 1966  
\*\* Closed April, 1966

## CONVENTIONAL DEPARTMENT STORES

#### ILLINOIS

Aurora Dry Goods Co., Aurora  
Carroll House, Belleville  
Peoria Dry Goods, Peoria  
Rockford Dry Goods,  
Loves Park\*  
Rockford Dry Goods, Rockford  
Waukegan Dry Goods Co.,  
Waukegan

#### INDIANA

The Evansville Store, Evansville  
The Evansville Store,  
Lawndale\*  
Stillman's, Fort Wayne  
Stillman's, South Gate\*  
Hill's, Marion  
Stillman's, Muncie  
Hill's, Vincennes

#### KENTUCKY

Jefferson Dry Goods, Louisville  
Paducah Dry Goods Co.,  
Paducah

#### MICHIGAN

George W. Toeller Co.,  
Battle Creek  
The Fair, Flint\*  
Stillman's, Jackson  
Carroll House, Port Huron

#### NEW YORK

Boston Store, Latham\*  
Boston Store, Massena\*  
Stanley's, Troy  
Boston Store, Utica

#### OHIO

The Boston Store, Springfield

#### PENNSYLVANIA

Carroll House, Williamsport

#### SOUTH CAROLINA

Bailes, Anderson

#### TENNESSEE

The Knox, Knoxville

#### VERMONT

Economy Department Store,  
Rutland

#### WEST VIRGINIA

The Huntington Store,  
Huntington

#### WISCONSIN

Fond du Lac Department Store,  
Fond du Lac  
Hill's Department Store,  
Sheboygan

\* Suburban Stores

## INTERSTATE DEPARTMENT STORES, INC.

Annual Report 1965

### FINANCIAL HIGHLIGHTS

	1965	1964
Total Sales .....	\$433,632,000	\$384,868,000
Net Income before Taxes .....	14,434,000	11,122,000
Net Income after Taxes .....	7,934,000	5,922,000
Earnings Per Share* .....	2.40	1.90
Dividends Per Share—Cash* .....	.50	.38
—Stock Dividends .....	4%	4%
—Stock Splits .....	—	2-for-1
Working Capital .....	\$ 39,285,000	\$ 37,618,000
Stockholders' Equity .....	49,164,000	40,639,000

*\*Based on average number of shares for each year, adjusted to give effect to 2-for-1 stock split in 1964 and all stock dividends distributed through January 31, 1966.*



## TO OUR SHAREHOLDERS:

We are pleased to report that 1965 was the seventh consecutive year in which new records were established for sales and earnings.

Sales rose to a new high of \$433.6 million, a 12½ per cent increase over the prior year when volume totaled \$384.9 million. The improvement was due to higher sales on a store-for-store basis and the opening of new stores.

### EARNINGS RISE 34 PER CENT

Net earnings after taxes increased at a significantly higher rate, 34 per cent, rising to approximately \$7.9 million from \$5.9 million the previous year. Our net earnings were equal to 1.8 per cent of sales, which is the best performance the Company has recorded to date, and compares with 1.5 per cent in 1964, and 1.3 per cent the year before that.

On a share basis, net earnings rose to \$2.40 based on an average of 3,297,954 shares outstanding. This compares with \$1.90 per share the year before, which was based on an average of 3,112,749 shares outstanding after giving effect to all stock dividends distributed through January 31, 1966. The increase in number of

shares was due primarily to the conversion of Convertible Subordinated Debentures into Common Stock and to the distribution of a 4 per cent stock dividend during the year. A total of 171,782 shares of stock was added as a result of the conversion of \$2,180,300 of Debentures.

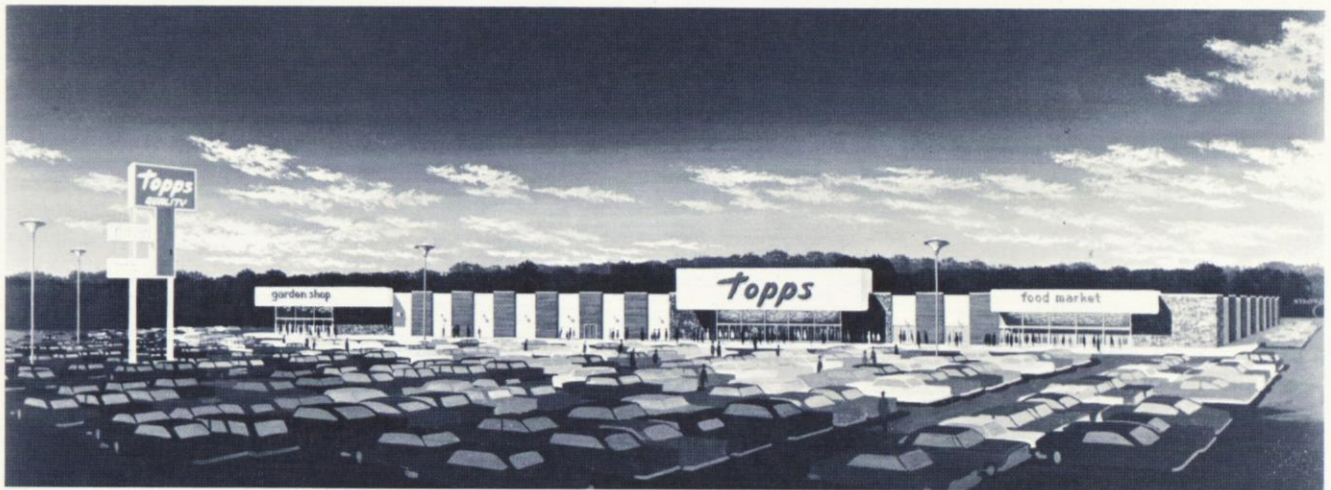
### DIVIDEND PAYOUT IMPROVED

The quarterly dividend rate was increased from 11¼ cents to 13 cents a share effective with the payment of the February 15th dividend, and a 4 per cent stock dividend was paid at the same time to stockholders of record January 19th.

Interstate has disbursed cash dividends without interruption for 26 consecutive years and has paid stock dividends in each of the last eight years.

The Company's financial position was further improved. Working capital amounted to \$39.3 million, which compares with \$37.6 million a year ago. Stockholders' equity totaled \$49.2 million, an increase of \$8.6 million over 1964, when it was \$40.6 million. Long term debt was reduced from \$15.6 million to \$13.8 million. Convertible Subordinated Debentures amounted to \$2,904,100, which compares with \$5,084,400 a year ago.





*A prototype of the design now being used for our new Topps stores is illustrated by this artist's rendering. During 1966, the Company plans on opening at least 10 Topps stores in the East and Midwest. Two new White Front units are also scheduled for the West Coast.*

#### SIX STORES OPENED IN 1965

Although six new stores were opened in 1965, the same number of units was also terminated, leaving a net total of 90 stores in operation at the end of the year. The profitability of the Company was materially improved, however, as a result of the changes.

Five White Front stores were opened on the West Coast: two in San Diego, and one each in Fresno, South San Francisco and South Sacramento. These units were all approximately the same size: 145,000 square feet of floor space, including a 30,000 square-foot supermarket operation. One Topps unit was added; this store, about 90,000 square feet in size, is located in Elgin, Illinois.



Except for the Fresno store, all were opened in the latter part of the year and consequently contributed only partially to Interstate's 1965 sales and earnings.

Leases were not renewed in the case of three old stores: Interstate's original experimental discount store located in a factory building at Coplay, Pennsylvania, a Topps unit at Lancaster, Pennsylvania, which was one of the early Topps stores, and a conventional department store in York, Pennsylvania. The Company also discontinued its Topps operation at St. Louis Park, a suburb of Minneapolis, subleasing this unit to another retail chain on terms favorable to our Company.

Two stores were lost as a result of catastrophe. The Topps store in Louisville, Kentucky, was completely destroyed by fire, and White Front's unit in Watts, a suburb of Los Angeles, was reduced to rubble as a result of the August riots. Comprehensive insurance coverage provided protection against loss of income as well as property damage.

#### STORE OPENINGS TO ACCELERATE

Plans for 1966 provide for a step-up in the pace of new store construction. A minimum of 12 new stores will

be added. Two have already gone into operation since the beginning of the current year. Part of the Topps group, they are located at Gary, Indiana, and Detroit, Michigan, where Interstate now has four Topps stores serving the community.

Three more stores are scheduled for opening in May: a fifth unit in the Detroit area, a second unit in Baltimore, Maryland, and a third unit in Indianapolis, Indiana.

Five additional Topps stores are planned for the fall, to be located at Baltimore, Maryland, Canton, Ohio, Kenosha, Wisconsin, Rochester, New York, and Springfield, Massachusetts. Two White Front stores are scheduled for fall openings: one at Costa Mesa and the other at Downey, both in Southern California.

Interstate's second suburban store in Flint, Michigan, will be completed and in operation by late summer. Originally scheduled for opening in 1965, but postponed because of delays in construction, the new unit, to be named The Fair after its companion store, will be the seventh suburban store in Interstate's retail complex. With about 90,000 square feet of floor space, the store will carry a broad selection of merchandise, principally in soft lines, and will feature service as well as fashion.

Plans for this and other suburban stores signifies In-





*The ready-to-wear department of our new Topps store in Wayne, Mich., which opened in March, features recessed lighting, carpeting, attractive fixtures and displays and is typical of the Company's efforts to boost sales by adding eye-appeal to self-service retailing.*



terstate's conviction that attractive growth opportunities exist in many segments of retailing's broad spectrum.

#### DISCOUNT INDUSTRY EXPANDS

In the Company's view, the prime growth opportunities will continue to be found in the field of self-service,

or discount retailing. Accordingly, this is the field in which Interstate is placing its greatest emphasis.

Last year, Interstate invested about \$2.8 million in store improvements, the bulk of which was allocated to discount stores. A major use of these funds was to upgrade the appearance of ready-to-wear departments. In many stores, a shop-within-the-store effect has been

#### DIVIDENDS AND MARKET VALUE

	1958	1959	1960	1961	1962	1963	1964	1965	1966
Shares Owned*	100	103	106	111	339	352	366	761	791
Stock Dividends	3%	3%	5%	2%	4%	4%	4%	4%	—
Stock Splits	—	—	—	3-for-1	—	—	2-for-1	—	—
Market Price*	\$ 23 <sup>1</sup> / <sub>4</sub>	\$ 28 <sup>3</sup> / <sub>4</sub>	\$ 35 <sup>5</sup> / <sub>8</sub>	\$ 60	\$ 42 <sup>1</sup> / <sub>2</sub>	\$ 30 <sup>1</sup> / <sub>4</sub>	\$ 42 <sup>1</sup> / <sub>4</sub>	\$ 28 <sup>3</sup> / <sub>8</sub>	\$ 36 <sup>1</sup> / <sub>2</sub>
Market Value*	2,325	2,961	3,776	6,660	14,407	10,648	15,463	21,593	28,872
Dividend Rate	.625	1.20	1.20	.45	.50	.60	.70	.45	.52
Dividends Paid†	62.50	123.60	126.30	148.35	168.77	209.25	253.75	352.55	—
Cash for Fractions	—	—	3.08	14.71	32.35	15.22	3.90	11.74	—

\*At beginning of calendar year.

†By end of calendar year.



achieved through the use of more attractive fixtures and merchandise displays, carpeting and soft, recessed lighting. The additional volume of business that has been gained in the ready-to-wear departments as a result of this program demonstrates the value of a flexible approach in determining the type of retail environment that is best suited for various product lines.

Many other improvements are being introduced regularly in Interstate stores to increase sales, strengthen efficiency and reduce costs. Particular attention is being given to the utilization of computers in inventory control as well as in accounting functions. All new stores employ electronic cash registers which prepare sales information for computer processing, and most of the older stores have switched to this type of equipment. New generation computer equipment is constantly being studied and evaluated in relation to the Company's expanding and more complex needs.

#### OUTLOOK PROMISING

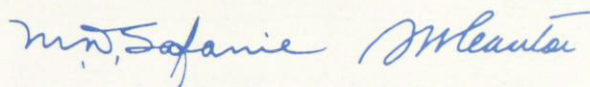
The outlook for the discount industry is very promising. We expect that the pattern of growth of recent years will continue. The industry has grown an average of \$2

billion a year since 1960 when sales totaled \$2.7 billion. In 1964, volume had grown to approximately \$11 billion, and last year sales were in the area of \$13 billion. If the industry can maintain a rate of growth somewhere close to this record, it could achieve a volume in excess of \$20 billion by 1970.

We expect that our own rate of growth will accelerate in 1966, with sales reaching and possibly exceeding the \$500 million mark. We look for a commensurate improvement in net earnings.

Our success in meeting our targets will depend, as it has in the past, on the performance of thousands of individuals who comprise the Interstate organization. On the basis of their past efforts, for which the Board and Management are indeed grateful, we are quite confident about the future.

Sincerely,

Handwritten signatures of Murray D. Safanie and Sol W. Cantor in blue ink.

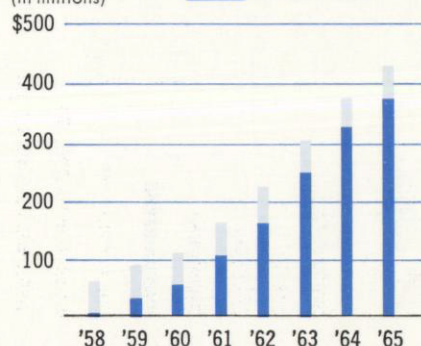
Murray D. Safanie  
Chairman

Sol W. Cantor  
President

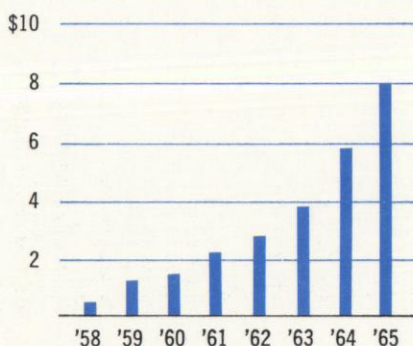


## EIGHT YEAR FINANCIAL REVIEW

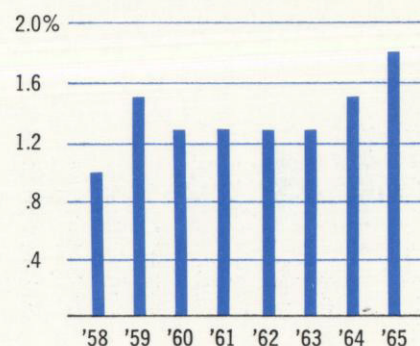
**TOTAL SALES** (in millions)  
 Conventional Stores  
 Discount Stores



**NET EARNINGS** (in millions)



**RETURN ON SALES** (in per cent)



### OPERATIONS

	1965	1964	1963
Total Sales .....	\$433,631,517	\$384,867,747	\$311,153,078
Discount Store Sales .....	377,426,161	330,691,079	256,375,366
Conventional Store Sales .....	56,205,356	54,176,668	54,777,712
Net Income before Taxes .....	14,433,583	11,122,469	7,122,921
Net Income after Taxes .....	7,933,583	5,922,469	3,907,921
Earnings Per Share* .....	2.40	1.90	1.42

### FINANCIAL

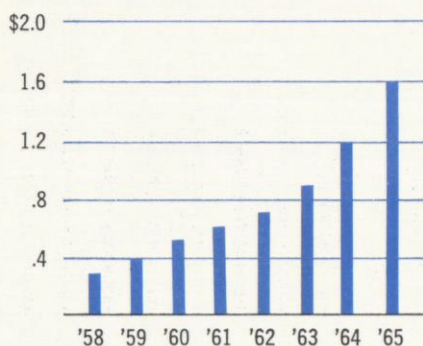
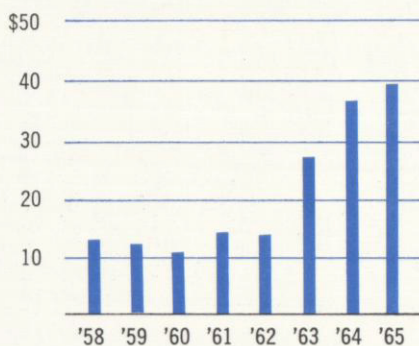
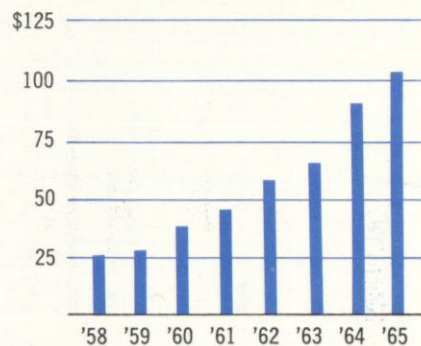
Working Capital .....	\$ 39,285,233	\$ 37,618,227	\$ 28,178,420
Current Ratio .....	1.9 to 1	2.1 to 1	2.1 to 1
Total Assets .....	108,325,942	91,287,663	68,610,479
Fixed Assets .....	19,158,199	12,925,583	9,557,141
Long Term Debt .....	13,792,732	15,580,801	15,619,275
Stockholders' Equity .....	49,163,842	40,639,073	26,363,449
Dividends Per Share—Cash* .....	.50	.38	.28
—Stock Dividends .....	4%	4%	4%
—Stock Splits .....	—	2-for-1	—

### STORES

Discount .....	59	58	51
Conventional .....	31	32	34
Total .....	90	90	85

\* Based on average number of shares for each year, adjusted to give effect to 2-for-1 stock split in 1964 and 3-for-1 stock split in 1961 and all stock dividends distributed through January 31, 1966.



**DIVIDENDS** (in millions)**WORKING CAPITAL** (in millions)**TOTAL ASSETS** (in millions)

1962	1961	1960	1959	1958
\$222,807,320	\$165,219,039	\$114,311,355	\$90,315,963	\$65,674,273
167,481,253	108,462,276	55,255,476	26,620,881	687,783
55,326,067	56,756,763	59,055,879	63,695,082	64,986,490
5,249,596	3,829,413	2,385,804	2,309,302	1,005,666
2,909,596	2,079,413	1,490,804	1,394,302	645,666
1.07	.77	.57	.56	.27
\$ 14,786,485	\$ 14,904,700	\$ 10,661,936	\$ 12,798,724	\$ 13,626,127
1.5 to 1	1.9 to 1	1.7 to 1	2.6 to 1	3.6 to 1
59,670,000	45,268,407	37,554,825	28,811,113	26,072,287
9,780,592	8,340,302	7,698,748	6,875,788	6,504,703
5,962,671	6,960,967	3,336,816	3,749,235	4,978,212
23,218,931	20,620,591	18,917,757	17,051,348	15,586,307
.22	.19	.16	.16	.13
4%	2%	5%	3%	3%
—	3-for-1	—	—	—
44	25	20	5	1
36	37	41	46	46
80	62	61	51	47



## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended January 31, 1966

### Source of Funds

Net earnings .....	\$ 7,933,583
Depreciation and amortization .....	1,597,837
Increase in deferred Federal income taxes .....	473,086
Debentures converted into Common Stock—net of related expenses .....	2,115,497
Decrease in other assets .....	737,298
Exercise of employee stock options .....	107,862
	<u>\$12,965,163</u>

### Application of Funds

Cash dividends .....	\$ 1,642,073
Fixed assets acquired under modernization and expansion program—net .....	7,830,453
Decrease in long term debt—net (including \$2,180,300 of Debentures converted into Common Stock) .....	1,788,069
Other—net .....	37,562
Increase in working capital .....	1,667,006
	<u>\$12,965,163</u>

See accompanying notes



**INTERSTATE DEPARTMENT STORES, INC.**  
and Subsidiary Companies

**CONSOLIDATED STATEMENT OF EARNINGS**

	<b>1965</b> (Year Ended Jan. 31, 1966)	<b>1964</b> (Year Ended Jan. 31, 1965)
<b>Net Sales:</b>		
Owned departments .....	\$313,160,115	\$280,519,320
Leased departments .....	<u>120,471,402</u>	<u>104,348,427</u>
	433,631,517	384,867,747
<b>Cost of Sales</b> (including certain buying, occupancy and distribution expenses) .....	<u>358,193,850</u>	<u>320,688,423</u>
	75,437,667	64,179,324
<b>Selling, General and Administrative Expenses</b> .....	<u>62,072,685</u>	<u>53,714,345</u>
	13,364,982	10,464,979
<b>Other Income—Net</b> .....	<u>1,799,151</u>	<u>1,460,850</u>
	15,164,133	11,925,829
<b>Interest Expense</b> .....	<u>730,550</u>	<u>803,360</u>
<b>Net Earnings before Federal Income Taxes</b> .....	14,433,583	11,122,469
<b>Provision for Federal Income Taxes</b> (including \$620,000 and \$437,000, respectively, of deferred Federal income taxes) (Note D) .....	<u>6,500,000</u>	<u>5,200,000</u>
<b>Net Earnings</b> .....	<u>\$ 7,933,583</u>	<u>\$ 5,922,469</u>

Depreciation and amortization included above amount to \$1,597,837 (1965) and \$1,259,254 (1964).



## CONSOLIDATED BALANCE SHEET

ASSETS	1965 (Jan. 31, 1966)	1964 (Jan. 31, 1965)
<b>Current Assets:</b>		
Cash (including Certificates of Deposit) .....	\$ 13,246,263	\$15,523,002
U. S. Treasury Bills—at cost, plus, in 1964, accrued interest ....	2,000,000	174,011
Accounts receivable:		
Customers (net of reserves of \$525,342 and \$459,148, respectively) .....	8,736,353	8,185,606
Other .....	5,878,554	2,516,630
Merchandise inventories (Note A) .....	50,958,679	44,092,865
Prepaid expenses .....	<u>2,474,666</u>	<u>1,306,902</u>
Total Current Assets .....	83,294,515	71,799,016
<b>Other Assets (Note H) .....</b>	<b>1,606,919</b>	<b>2,344,217</b>
<b>Fixed Assets—at cost, net of reserves for depreciation and amortiza-     tion of \$6,198,165 and \$5,699,478, respectively (Notes B and C) ..</b>	<b>19,158,199</b>	<b>12,925,583</b>
<b>Deferred Charges (including pre-opening expenses of \$441,931     and \$334,868, respectively) .....</b>	<b>672,111</b>	<b>624,649</b>
<b>Intangibles Applicable to Subsidiaries Acquired .....</b>	<b>3,594,198</b>	<b>3,594,198</b>
	<u><u>\$108,325,942</u></u>	<u><u>\$91,287,663</u></u>

See accompanying notes



INTERSTATE DEPARTMENT STORES, INC.  
and Subsidiary Companies

LIABILITIES	1965 (Jan. 31, 1966)	1964 (Jan. 31, 1965)
<b>Current Liabilities:</b>		
Current installments of long term debt (Note C) .....	\$ 569,161	\$ 108,352
Accounts payable—trade .....	27,834,976	22,039,857
Accrued expenses and other liabilities .....	8,027,692	5,699,026
Taxes withheld and accrued, other than Federal income taxes ..	2,696,146	2,070,294
Accrued Federal income taxes (Note D) .....	<u>4,881,307</u>	<u>4,263,260</u>
Total Current Liabilities .....	44,009,282	34,180,789
Deferred Federal Income Taxes (Note D) .....	1,360,086	887,000
Long Term Debt (Note C) .....	<u>13,792,732</u>	<u>15,580,801</u>
Total Liabilities .....	59,162,100	50,648,590
Stockholders' Equity (Notes C, E, F and H) .....	49,163,842	40,639,073
Lease Commitments and Other Comments (Notes G and H)		
	<u>\$108,325,942</u>	<u>\$91,287,663</u>

to financial statements.



## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	1965 (Year Ended Jan. 31, 1966)	1964 (Year Ended Jan. 31, 1965)
Earnings Retained for Use in Business (at the beginning of year) . .	\$15,978,878	\$14,425,562
Net Earnings .....	<u>7,933,583</u>	<u>5,922,469</u>
	<u>23,912,461</u>	<u>20,348,031</u>
Dividends Declared (Note E):		
Cash .....	1,549,210	1,109,080
Stock .....	<u>4,725,138</u>	<u>3,260,073</u>
	<u>6,274,348</u>	<u>4,369,153</u>
Earnings Retained for Use in Business (at the end of year) (Note C)	17,638,113	15,978,878
Capital Surplus (Notes C, E, F and H) .....	26,833,159	20,279,449
Common Stock (stated at par value of \$1 per share, plus \$1,271,306 retained as Capital by resolution of the Board of Directors) (Notes C, E and F):		
	Shares	
	1965	1964
Authorized .....	<u>6,500,000</u>	<u>6,500,000</u>
Issued .....	3,368,972	3,070,067
To be issued .....	<u>131,524</u>	<u>120,029</u>
	<u>3,500,496</u>	<u>3,190,096</u>
	4,771,802	4,461,402
	<u>49,243,074</u>	<u>40,719,729</u>
Less—Treasury Stock—at cost—14,976 and 15,276 shares, respectively .....	<u>79,232</u>	<u>80,656</u>
Stockholders' Equity .....	<u>\$49,163,842</u>	<u>\$40,639,073</u>

*See accompanying notes to financial statements.*



## NOTES TO FINANCIAL STATEMENTS

The financial statements as at and for the year ended January 31, 1965, are shown for comparative purposes only. Reference should be made to the previously issued annual report for the Accountants' Report and notes pertaining to those financial statements.

**Note A** — Merchandise inventories are stated at the lower of cost or market based principally, as to inventories at stores (\$43,165,948), upon the retail method; the cost of approximately 7% of the inventories is determined by the last-in, first-out method.

**Note B** — Fixed assets comprise the following:

Land, land improvements and buildings .....	\$ 3,276,647
Furniture and equipment .....	14,104,027
Leaseholds and leasehold improvements .....	7,975,690
	<u>25,356,364</u>
Less: Reserves for depreciation and amortization .....	6,198,165
	<u>\$19,158,199</u>

**Note C** — Long term debt consists of the following:

5½ % Notes payable—insurance companies .....	\$10,000,000
4½ % Convertible Subordinated Debentures due August 1, 1981 ....	2,904,100
Other .....	1,457,793
	<u>14,361,893</u>
Less: Current installments .....	569,161
	<u>\$13,792,732</u>

The 5½ % Notes are payable \$500,000 a year from 1967 to 1976 and \$600,000 a year from 1977 to 1983; the unpaid balance is due July 15, 1983. The loan may be prepaid, in whole or in part, at principal amount plus, under certain conditions, a maximum premium of 5.1%.

The indenture applicable to the Debentures requires that the Company pay into a sinking fund, during the years 1968 to 1980, an amount sufficient to redeem each year \$275,000 principal amount of Debentures; this amount is subject to reduction, at the option of the Company, for Debentures previously converted which aggregate \$2,955,300 as at January 31, 1966. The Company may, at its option, pay into such sinking fund an additional amount not to exceed \$275,000 in any year. In addition, the Debentures

may be redeemed, in whole or in part, at principal amount plus a maximum premium of 3.625%.

The Debentures may be converted into Common Stock at a conversion price of \$12.21 a share. During the year, \$2,180,300 of Debentures were converted into 171,782 shares of Common Stock, resulting in increases in Common Stock of \$171,782 and in Capital Surplus of \$1,943,715 (net of related unamortized debt discount and expense). Based upon the foregoing conversion price, the outstanding Debentures at January 31, 1966, may be converted into a maximum number of 237,846 shares of Common Stock.

The indenture relating to the Debentures and the loan agreement with the insurance companies contain, among other matters, covenants restricting the right of the Company to declare dividends (other than stock dividends). Under the most restrictive of these covenants, approximately \$11,900,000 of consolidated capital surplus and earnings retained for use in the business is not restricted for the payment of dividends (other than stock dividends) as at January 31, 1966.

Included in other long term debt above are obligations which are collateralized by fixed assets having a depreciated cost of \$1,750,000.

**Note D** — In connection with the Treasury Department's current examination of the tax returns of the Company and its subsidiaries for the years ended January 31, 1960 and 1961, the examining agents have proposed certain adjustments which, if sustained, could result in tax assessments for these and subsequent years. The agents' reports propose, among other things, (1) that certain transactions between a subsidiary and other subsidiaries be taxed as dividends, (2) the disallowance of all New York office expenses that were allocated to one of the subsidiaries, and (3) the reallocation of New York office expenses among the other subsidiaries on a basis different from that used by the Company for several prior years and accepted by the Treasury Department for those years. In the opinion of the Company, these proposed adjustments are improper, but should additional taxes be assessed on the bases currently being suggested by the Treasury Department in discussions with them, the aggregate provision for Federal income taxes would be increased (1) by approximately \$200,000 (exclusive of interest) for 1960 and 1961 and (2) by a lesser aggregate amount for the subsequent years. No provision for Federal income taxes has been made for the foregoing with respect to the years under tax examination and subsequent years.



The ultimate disposition of these matters cannot presently be predicted; however, the Company is of the opinion that such disposition should have no material effect upon the accompanying financial statements.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

**Note E** — The 4% stock dividend aggregated \$4,725,138, based upon market quotation, of which \$92,863 is payable in cash in lieu of fractional shares. The aggregate par value (\$131,524) of the shares issuable in connection with such stock dividend has been credited to Common Stock and the balance (\$4,500,751) has been credited to Capital Surplus.

**Note F** — Under the Company's stock option plan, options for 19,210 shares may be granted to September 1971 at not less than fair market value at date of grant; the options would be exercisable 25% a year (on a cumulative basis) commencing one year from date of grant and would expire five years from date of grant.

During the year, options (1) were granted for 16,224 shares (net of cancellations), (2) lapsed for 347 shares and (3) were exercised for 7,094 shares resulting in credits to Common Stock (\$7,094) and Capital Surplus (\$100,768). At January 31, 1966, options were outstanding for the purchase of 146,348 shares at prices ranging from \$14.02 to \$29.09 a share.

**Note G** — Minimum annual rentals of real and personal property leased to the Company or to its subsidiaries amount to approximately \$9,800,000 plus, in certain instances, additional rentals based upon sales and charges for real estate taxes, insurance, etc. Of the foregoing amount, \$2,450,000 expires prior to 1981, \$4,450,000 expires between 1981 and 1985, and \$2,900,000 expires after 1985.

**Note H** — In the opinion of management, pending litigation will not materially affect the accompanying consolidated financial statements.

At January 31, 1966, the Company is contingently liable for \$1,273,445 under an accommodation note (due December 1, 1988) that it issued in connection with a sale-lease-back during a prior year. This contingent liability is subject to reduction to the extent that the lessor makes required payments against a note issued by it.

Included in Other Assets is \$814,337, representing the Company's investment in 50% of the stock of another company whose function is to acquire properties, construct store buildings thereon and lease same to subsidiaries of the Company. In connection therewith, the Company has guaranteed (to the extent of \$3,655,000 at April 13, 1966) the indebtedness to a bank of this 50% owned company. It is anticipated that this indebtedness will be refinanced on a long term basis and not subject to such guaranty.

During the year, Capital Surplus was credited with \$8,476 arising from the issuance of 300 shares of treasury stock as a bonus to an employee.

## ACCOUNTANTS' REPORT

To the Board of Directors  
Interstate Department Stores, Inc.  
New York, N. Y.

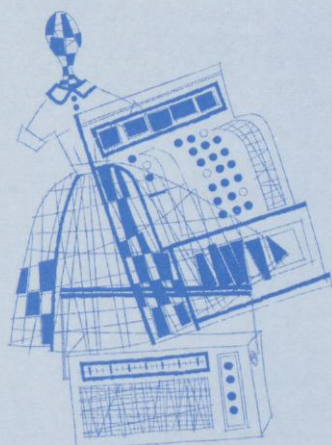
We have examined the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1966, and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc., and subsidiary companies at January 31, 1966, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying consolidated statement of source and application of funds presents fairly the information shown therein.

S. D. LEIDESDORF & CO.  
Certified Public Accountants

New York, N. Y.  
April 13, 1966





INTERSTATE  
DEPARTMENT  
STORES, INC.

Annual Meeting  
*Fourth Wednesday in May*  
Shares Listed  
*New York Stock Exchange—ISD*

**DIRECTORS**

Sam J. Abend	Emanuel P. Lewis
Sol W. Cantor	M. Lester Mendell
Harry Epstein	Albert Parker
Barry Golden	Paul D. Preger
Julian Lavitt	Murray D. Safanie
Selwyn Lemchen	Harold J. Szold

**OFFICERS**

Murray D. Safanie, *Chairman of the Board*  
Sol W. Cantor, *President*  
Sam J. Abend, *Vice President*  
Harry Epstein, *Vice President*  
Julian Lavitt, *Vice President*  
Selwyn Lemchen, *Vice President*  
Barry Golden, *Vice President*  
Albert Parker, *Secretary*  
Edward C. Schenkel, *Treasurer and Assistant Secretary*

**TRANSFER AGENT**

Bankers Trust Company, N. Y.

**REGISTRAR**

Manufacturers Hanover Trust Co., N. Y.

**GENERAL COUNSEL**

Parker, Chapin and Flattau, N. Y.

**AUDITORS**

S. D. Leidesdorf & Co., N. Y.

**EXECUTIVE OFFICES**

111 Eighth Avenue, New York, N. Y.

